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SUBJECT: ROKG PLANS FOR EXPANSION OF AID PROGRAM

¶1. This cable is sensitive but unclassified and not/not intended for Internet distribution.

¶2. (SBU) SUMMARY: The ROKG announced in September 2008 an ambitious plan to more than double (as a percentage of GDP) its Official Development Assistance (ODA) by 2012 and triple its ODA by 2015. Korea's ODA program totaled approximately 641 billion won (581 million USD) in 2008, up from 624.4 billion won in 2007 and 490.2 billion won in 2006. In recent discussion with Econoff, representatives from both the Ministry of Foreign Affairs and Trade (MOFAT) and the Ministry of Strategy and Finance (MoSF) reaffirmed Korea's commitment to that goal, but indicated that the ROKG is still drawing up a specific strategy to achieve it. (The ROKG does not include aid given to the Democratic People's Republic of Korea (DPRK) as part of its ODA. ROKG help for the DPRK was dramatically curtailed in 2008 due to political developments, but was roughly equal to its ODA in 2006 and 2007.) Korea believes that as a fairly recent recipient of development assistance, it can play a particularly useful role in helping developing countries ensure that the aid they receive is effectively utilized.

¶3. (SBU) Responsibility for Korea's ODA is currently divided between MOFAT, which administers grants (70 percent of total) and MoSF, which administers concessional loans (30 percent of total). Four bills are competing in the National Assembly to provide a legislative framework for Korean development assistance. Three of these would maintain the division of grants and concessional loans between MOFAT and MoSF; one would mandate a unified organizational structure to administer both grants and concessional loans. MOFAT expects that one of these four alternatives will be passed in 2009. MOFAT sees itself as playing an increasingly important role on ODA as grants become a greater percentage of Korea's ODA.

¶4. (SBU) Korea has publicly announced that it hopes to join the OECD's Development Assistance Committee (DAC) by 2010 (Korea is currently a member of the OECD but not of the DAC). The DAC recently reviewed the ROK's ODA program, and suggested that Korea unify its bifurcated development structure, pass overarching development assistance legislation, and reduce the high proportion of concessional loans. ROKG officials noted that the bifurcated nature of ODA is deeply institutionalized, however, and cannot be changed overnight. MOFAT expects the DAC will announce Korea's membership in May 2010. End Summary.

BUILDING OUT THE AID PROGRAM

¶5. (SBU) The ROKG has earmarked 667.2 billion won (480 million USD at current exchange rates) for its ODA budget in ¶2009. Actual ODA budget expenditures for 2008 have not yet been officially announced, but information from various ROKG

organizations point to expenditures of approximately 641 billion won (581 million USD using the average exchange rate for 2008). Expenditures for 2007 were 624.4 billion won (USD 672 million) and expenditures for 2006 were 490.2 billion won (517 million USD). (Note: The 40 percent decline in the won's value since August of last year means that even though the won-denominated budget figure has consistently increased, the dollar figure reached a high in 2007 and has since decreased).

16. (SBU) Geographic breakdown for grant aid in 2007:

| Region | Percentage of Total Grant Aid | Amount of Grant Aid |
|-----------------------------------|----------------------------------|---------------------|
| Asia | 32.7 | USD 88.4 million |
| Middle East | 21.6 | USD 58.5 million |
| Africa | 15.7 | USD 42.4 million |
| Latin America | 13.2 | USD 35.6 million |
| Europe | 2.8 | USD 7.5 million |
| IOs, NGOs and Multilateral Aid | 14.0 | USD 37.8 million |

Functional breakdown for grant aid in 2007:

| Function | Percentage of Grant Aid | Amount of Grant Aid |
|---------------------------------------|----------------------------|---------------------|
| Governance | 18.8 | USD 50.9 million |
| Health | 16.9 | USD 45.8 million |
| Education | 16.3 | USD 44.2 million |
| Environment and Gender | 15.4 | USD 41.8 million |
| Industry and Energy | 12.0 | USD 32.5 million |
| ICT | 11.0 | USD 29.7 million |
| Rural Development | 6.0 | USD 16.2 million |
| Disaster Relief and Reconstruction | 3.4 | USD 9.1 million |

Geographic breakdown for concessional loans in 2007:

| Region | Percentage of Total Concessional Loans | Amount of Concessional Loans |
|---------------|---|---------------------------------|
| Asia | 66.0 | USD 110.2 million |
| Africa | 13.1 | USD 21.9 million |
| Latin America | 11.0 | USD 18.4 million |
| Europe | 9.3 | USD 15.5 million |
| Middle East | 0.6 | USD 1.0 million |

Functional breakdown for concessional loans in 2007:

| Function | Percentage of Total Concessional Loans | Amount of Concessional Loans |
|--------------------------------|---|---------------------------------|
| Communications | 30.3 | USD 50.6 million |
| Transportation and Storage | 30.3 | USD 50.6 million |
| Water Supply and Sanitation | 12.2 | USD 20.4 million |
| Education | 8.4 | USD 14.0 million |
| Health | 4.9 | USD 8.2 million |
| Energy | 3.5 | USD 5.8 million |
| Agriculture | 2.7 | USD 4.5 million |
| Miscellaneous | 7.7 | USD 12.9 million |

In addition to these breakdowns, Korea contributed 205.6 million USD in multilateral assistance not reflected in the above tables.

17. (SBU) In September of last year, the ROKG's Committee for International Development Cooperation (CIDC), chaired by the Prime Minister and including 15 cabinet level ministers, announced an ambitious plan to increase Korea's ODA program

from its current 0.07 percent share of national income expenditure to 0.15 percent by 2012 and to 0.25 percent by 2015. Econoff met separately with Lim Hoon-min of the Development Policy Division of MOFAT and Lee Han Chul of the Development Cooperation Division in the International Economic Affairs Bureau of MoSF to discuss the future of ROKG ODA. Both of these agencies currently distribute ODA, with MOFAT being primarily responsible for grants and MoSF being primarily responsible for concessional loans. MoSF also plays a key role through its control of the national budget. Both Lim and Lee affirmed Korea's commitment to the goal of increasing Korea's ODA, but said that the ROKG has not yet drawn up a detailed plan to achieve the goal. The CIDC has tasked MOFAT and MoSF with working toward tripling aid as a percentage of GNI. Lim acknowledged that the current financial crisis has overshadowed discussions on how to realize the expansion of Korea's ODA program, but he expects a specific strategy to be drafted in 2009.

18. In terms of specific priorities, Lim and Lee noted there is no official policy statement regarding the ultimate goal of ODA. Lim said MOFAT's goal is to help nations develop as East Asia did. MoSF's Lee noted that Korea believed it could play a particularly effective role in monitoring utilization of assistance by developing countries, since it was recently an ODA recipient itself and understands the types of decisions and administrative work recipient countries must undertake.

ORGANIZATIONAL STRUCTURE OF ROKG AID BUREAUCRACY

19. (SBU) Responsibility for Korea's ODA is currently divided between MOFAT, which administers grants (70 percent of total), and MoSF, which primarily administers concessional loans (30 percent of total). As noted above, there is a Committee for International Development Cooperation (CIDC), chaired by the Prime Minister and including 15 cabinet level ministers, that provides senior-level blessing to major ODA policy decisions. Because of the senior level and ad hoc nature of this committee, the substantive work generally comes from MOFAT and MoSF. Inter-ministry interaction is currently very informal and involves MOFAT's Development Policy Division meeting with MoSF's Development Cooperation Division monthly to exchange information and forge consensus on difficult issues. Lim said MOFAT sees itself as playing an increasingly important role as grants become a greater percentage of Korea's ODA.

110. (SBU) There are currently four ODA bills pending in the National Assembly that seek to provide an overarching legal framework and streamline the ROKG's ODA procedures. MOFAT expects one of these bills to pass, though at this point they are not certain which will prevail. Three of the bills are largely similar and would maintain the current system of splitting grants and concessional loans between MOFAT and MoSF. The fourth bill would have a single organization (MOFAT) oversee both grants and concessional loans.

DEALING WITH THE DAC

111. (SBU) In November 2007 Korea announced it would try to join the OECD's Development Assistance Committee (DAC) by 2010 (Korea has been a member of the OECD since 1996 but is not currently a member of the DAC). In March 2008, DAC representatives traveled to Seoul for a review of the ROKG's ODA program. In September of 2008, DAC officials returned to Seoul to brief the Koreans and broader diplomatic community on the findings of the review. The DAC briefed the ROKG officials and diplomats about its report. Although not required for DAC entry, the report recommendations are meant to help the ROKG expand and improve its ODA. The DAC report reflected concern about fragmentation resulting from the ROK's bifurcated aid distribution system as being too fragmented. In meetings with Econoff, representatives from

both MOFAT and MoSF acknowledged that while having a single organization handle aid might be optimal, any change to the institutional architecture would be gradual, since MOFAT and MoSF each had over 20 years of expertise in grants and concessional loans, respectively. MoSF's Lee pointed out that France, Japan, and Spain also have fragmented aid bureaucracies. Lee added that while having a single ministry overseeing aid could be more efficient, it would risk losing the benefits of the interagency deliberative process. MOFAT's Lim noted that there is a growing support for deepening inter-ministerial interaction by scheduling regular meetings that would be chaired by a senior official, possibly the Prime Minister.

¶12. (SBU) Another comment in the DAC report is that Korea could benefit from overarching legislation concerning ODA. As noted above, four drafts bills that would create such a legislative framework are competing for approval by the National Assembly. Reflecting MoSF's fondness for the status quo, Lee pointed out that few countries have a single overarching piece of legislation that governs their ODA.

¶13. (SBU) The DAC report also recommended that Korea shrink the share of its ODA program (currently about 30 percent) that is comprised of concessional loans. MOFAT's Lim indicated this seemed likely to occur; he noted what he called an irreversible international trend of favoring grants over concessional loans, and cited the ROKG's commitment to expand grants at the Financing for Development Conference in Doha. He added that Korean academics and journalists, as well as members of the National Assembly, are also pressuring the ROKG to increase its percentage of grants. Unsurprisingly, Lee from MoSF, which administers the loan program, resisted this recommendation, asserting that concessional loans are an effective means of development for recipient countries, including in the ROK's own case. (Note: MoSF's views cannot be lightly dismissed within the ROKG as it has the normal responsibilities of a Finance Ministry, but also handles strategic economic planning functions and manages the ROKG budget process. End note.) Lim also noted that Korea was beginning a process of untying its bilateral aid (currently most of Korea's aid is wholly or partially tied -- the recipient country is obligated to use some portion of the aid to procure goods or services from the ROK). A plan is being developed to untie the aid program and Lim estimated it would take 5-10 years to complete the change. He noted that when Korea began its aid program, tying the assistance had helped build support for the program among Korean businesses (particularly since they did not have much development experience and anticipated losing out to more experienced international bidders if the aid were untied).

¶14. As for Korea's prospects for DAC membership by 2010, MOFAT's Lim expressed optimism. FM Yu Myung-hwan submitted a formal application to join the DAC on January 16, 2009 and a final OECD DAC fact-finding team will visit Korea in June. MOFAT expects that a DAC senior level meeting will de facto recognize Korea as a member of the DAC and that the DAC will officially announce Korea's membership on May 2010.

AID FOR NORTH KOREA -----

¶15. (SBU) The ROK is also in a unique position because of the status of North Korea. ROKG assistance for the DPRK has been sizeable until political tensions curtailed most assistance in 2008. In 2007, for example, ROKG assistance to North Korea totaled USD 432 million, approximately two-thirds of the ODA budget. All DPRK aid is administered by the Ministry of Unification and does not pass through normal ODA channels. The ROK does not consider this assistance to be ODA because, by its constitution, the ROK does not recognize the DPRK as a separate country.

¶16. (SBU) Korea's political leadership and government have set their sights on a more active global role for Korea -- fuller engagement with countries outside the East Asia region, as well as taking on the global responsibilities of an advanced economy. Part of that process is developing a meaningful official development assistance program. Characteristically, the ROKG has set an ambitious target (tripling ODA as a percentage of GDP by 2015) first, and is now in the process of working out how to get there. That said, the ROKG's development officials seem to have a fairly ambitious agenda of near term steps to improve the quality of Korea's aid: passing comprehensive ODA legislation; enhancing inter-agency cooperation in Seoul; and joining the DAC (which will in turn sustain pressures to expand and improve Korea's aid program). Increases in aid quantity will presumably be more sporadic: Korea's ODA increased by 27 percent in 2007 (in won terms), but it appears ODA disbursements only increased by about three percent in 2008, and will increase by a comparable number in 2009 (in the face of economic recession). With the Lee Myung-bak Government repeatedly proclaiming its interest in developing a "21st century strategic alliance" with the United States, and ROKG officials acknowledging their pool of development expertise is limited, expanded coordination on ODA policy can be a useful focus of bilateral US-ROK discussions, as Korea strives for its goal of establishing itself as a more important donor nation in the years ahead.
STEPHENS